

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3327-02
Bill No.: HB 1554
Subject: Children and Minors; Education - Elementary and Secondary; Taxation and Revenue - General and Income
Type: Original
Date: February 12, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$134,470,436 to Unknown)	(\$138,403,617 to Unknown)	(\$142,554,751 to Unknown)
Total Estimated Net Effect on <u>All</u> State Funds	(\$134,470,436 to UNKNOWN)	(\$138,403,617 to UNKNOWN)	(\$142,554,751 to UNKNOWN)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume this legislation creates a \$1,000 tax credit for a taxpayer whose dependent is in the first to twelfth grade and who reads at the current grade level. A tax credit will also be allowed for a taxpayer whose dependent has not yet reached the first grade, but reads at a first grade level or higher. The tax credit is refundable, but may not be carried forward or back to another tax year. The credit will not be allowed for a taxpayer who fails to file a timely income tax return. In order to claim the credit, the taxpayer must have the dependent tested by any institution of higher learning, who will then certify the tax credit.

The DOR is unable to determine the number of taxpayers who will qualify for the tax credit. However, the DOR anticipates it will need 8 temporary tax season employees to key the additional information needed on the credit and one Tax Processing Technician to correct and verify the errors (one for every 30,000 errors) generated by this credit. The DOR will also need one Tax Processing Technician to process the additional pieces of correspondence (one for every 3,000 pieces) generated by this legislation.

Customer Assistance anticipates that this legislation will generate calls to the income tax hot line requesting information and explanation of the credit. One Tax Collection Tech I will be needed (one for every 24,000 additional calls per year) on this new credit. DOR assumes this legislation will also increase the walk-ins at the Tax Assistance Centers. Taxpayers that were not required to file an income tax return because their income was not high enough would file for this refundable credit. A large majority of the current Tax Assistance walk-in help is for low income citizens who can't afford or do not want to pay a tax preparer. One Taxpayer Services Rep I will be needed (one for every 5,193 phone calls and 2,149 walk-ins per year).

DOR assumes this legislation will require modifications, including edits to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor, at a cost of \$46,170. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center implementation costs will be \$9,007.

Officials from the **Department of Higher Education (CBH)** state this legislation will require the CBH to determine the average cost of reading level testing and prepare a related annual report. The CBH will also be required to reimburse each institution for reading level tests performed.

The CBH assumes that the tasks required by this legislation would require 0.25 FTE. This individual would be responsible for compiling the annual report, figuring the average reading

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level test cost, and working with the institutions to ensure proper reimbursement for tests given. CBH estimates that printing and distribution of the annual report will cost the CBH \$2,000. CBH also assumes that the General Assembly, when appropriating funds for this program, will provide the full appropriation necessary to reimburse each institution completely, and that no additional funding will be required for this program from the CBH budget. To provide a rough estimate of possible costs, CBH assumes that a reading test costs approximately \$150 each. DES provided a total public school (K-12) fall enrollment of 894,466, which provides a total possible cost of \$134,169,900 for this sector in FY 2003. No private school calculations were used in this analysis, so the potential costs could actually be higher. This figure was inflated 3 percent to obtain the FY 2004 and FY 2005 projections. This analysis does not include the \$1,000 per child tax credit.

According to the **Missouri Assessment Program (MAP)**, about one third of Missouri third and seven grade public school students scored at an advanced or proficient level in the communications arts category. Approximately twenty-three percent (23%) of eleventh grade public school students also scored at this advanced level. Therefore, **Oversight** assumes the revenue loss from this tax credit for public school students would be \$298 million (894,466 students @ 33 1/3% x \$1,000 tax credit) to \$206 million (894,466 students @ 23% x \$1,000 tax credit). However, this credit only requires reading at the student's current grade level so the above estimate would not include every student that might qualify for the tax credit. This calculation does not include students in private schools, home-schooled students or preschoolers who could qualify for this credit. Oversight will reflect the revenue loss from this tax credit as unknown.

Department of Elementary and Secondary Education (DES) officials assume this legislation will result in an unknown revenue loss, expected to exceed \$100,000 annually.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposed legislation would impact total state revenue – unknown loss to general revenue. BAP defers to the Department of Revenue for the tax credit estimate. This legislation would not impact the Division of Budget and Planning.

Secretary of State (SOS) officials assume this legislation would require the Department of Education, Elementary and Secondary Education, and the Department of Revenue, Division of Taxation to promulgate rules and regulations as they pertain to allowing a tax credit relating to a dependent child's reading level. Based on prior rule-making for these agencies, rules and forms for these agencies could require as many as 10 pages in the Code of State Regulations. Because rules in their proposed version are also published in the Missouri Register, one-half again as many pages will be required to be published in this publication because of cost statements, fiscal

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notes, etc., which are not republished in the Code. These costs are estimated at \$615 for FY03. The cost per page in the Missouri Register is \$23.00; the cost per page in the Code of State Regulations is \$27.00. Actual cost could be more or less than the numbers provided.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

This legislation would decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Loss - General Revenue</u>			
Child's Reading Level Tax Credit	(Unknown)	(Unknown)	(Unknown)
<u>Cost - Dept. of Revenue</u>			
Personal Service (8 Temps.)	(\$57,600)	(\$59,040)	(\$60,516)
Personal Service (4 FTE)	(\$89,052)	(\$91,279)	(\$93,561)
Fringe Benefits	(\$32,068)	(\$32,870)	(\$33,691)
Expense and Equipment	(\$48,148)	(\$2,353)	(\$2,423)
Programming & State Data Center	<u>(\$55,177)</u>	<u>(\$9,277)</u>	<u>(\$9,556)</u>
Total Costs - DOR	(\$282,045)	(\$194,819)	(\$199,747)
<u>Cost - Dept. of Higher Education</u>			
Personal Service (.25 FTE)	(\$6,833)	(\$8,405)	(\$8,615)
Fringe Benefits	(\$2,461)	(\$3,027)	(\$3,102)
Expense and Equipment	(\$9,197)	(\$2,369)	(\$2,440)
Reading Level Testing Costs	<u>(\$134,169,900)</u>	<u>(\$138,194,997)</u>	<u>(\$142,340,847)</u>
Total Costs - CBH	<u>(\$134,188,391)</u>	<u>(\$138,208,798)</u>	<u>(\$142,355,004)</u>
	<u>(\$134,470,436)</u>	<u>(\$138,403,617)</u>	<u>(\$142,554,751)</u>
TOTAL ESTIMATED NET EFFECT	to	to	to
ON GENERAL REVENUE FUND	<u>UNKNOWN</u>	<u>UNKNOWN</u>	<u>UNKNOWN</u>

FISCAL IMPACT - Local Government

FY 2003
(10 Mo.)

FY 2004

FY 2005

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill authorizes an individual income tax credit for parents or guardians whose dependent child reads at an appropriate reading level. The tax credit will be equal to \$1,000 per child who qualifies under standards contained within the bill.

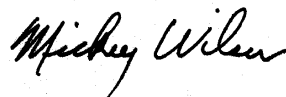
To qualify, a parent or guardian must have the child tested for his or her grade reading level at a qualifying institution of higher learning located in this state. If the child reads at his or her current grade level or higher, the institution will certify the child's ability to the parent or guardian with a certificate.

Each qualified institution of higher learning will be reimbursed for costs associated with the testing of children in an amount determined by the Coordinating Board for Higher Education.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Higher Education
Missouri Assessment Program
Department of Elementary and Secondary Education
Office of Administration, Division of Budget and Planning
Secretary of State



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Mickey Wilson, CPA
Acting Director
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